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SIPDIS

FROM AMBASSADOR LINDA WATT TO AUSTR REGINA VARGO

E.O. 12958: N/A

TAGS: [ETRD](#) [PREL](#) [PM](#) [ECONOMIC AFFAIRS](#)

SUBJECT: SCENESETTER: AUSTR VARGO'S TRIP TO PANAMA FOR THE FIRST ROUND OF U.S.- PANAMA FTA NEGOTIATIONS (APRIL 26-30)

This message is sensitive but unclassified. Please protect accordingly.

1. (U) I warmly welcome your April 25-30 visit to Panama. The USDEL's visit marks the culmination of a long campaign by the GoP to move forward on an FTA with the U.S. You will have the opportunity to reiterate USG commitment to expanding trade and investment between our two countries, and to press for continuing focus on predictability for investors and transparency and anti-corruption within Panama's institutions. Your visit highlights our governments' mutual interest in the strategic issues of expanding open markets throughout the hemisphere and strengthening democracy. Panama's upcoming May 2 national elections will reign paramount in the minds of many of your interlocutors. It is worth noting Panama was an early member of the Coalition of the Willing, has signed and ratified a bilateral Article 98 Agreement, is a strong anti-narcotics ally, a strong supporter of U.S. maritime security/trade-security initiatives, and has sided with the USG in regional and multilateral trade fora. Panama has proven itself a good friend and ally.

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A Brief History  
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2. (U) From its founding in 1903 until 1968, the Republic of Panama was a constitutional democracy dominated by a commercially oriented oligarchy focused on Panama as an entreport for international trade. In October 1968, Dr. Arnulfo Arias Madrid -- the deceased husband of current Panamanian President Mireya Moscoso -- was elected to and deposed from the presidency for the third time. General Omar Torrijos (d. 1981) -- the deceased father of current opposition leader and leading presidential candidate Martin Torrijos -- became dictator in 1969 and was succeeded in infamy by General Manuel Noriega. On December 20, 1989, President George H.W. Bush ordered the U.S. military into Panama to restore democracy, protect AmCits and their property, fulfill U.S. treaty responsibilities to operate and defend the Canal, and bring Noriega to justice. Noriega is still serving a 30-year sentence in Miami for drug trafficking. Since 1989, Panama has twice held free and fair elections, transferring power from/to opposition parties in 1994 and 1999.

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May 2004 Elections  
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3. (U) Panama will hold national elections on May 2, 2004, with the incumbent Moscoso Administration leaving office September 1. Four campaigns are vying for the presidency, 78 legislative seats, and all mayoral and local representative positions. Democratic Revolutionary Party (PRD) candidate Martin Torrijos maintains a substantial lead over third-party candidate and former Panamanian President Guillermo Endara (1989-1994). The ruling Arnulfista party candidate, former Foreign Minister Jose Miguel Aleman (1999 to 2003), seems to be closing the gap with Endara. Minor Democratic Change (CD) party candidate Ricardo Martinelli is a distant fourth. A recent poll shows Torrijos with 47 percent support, followed by Endara with 27 percent, Aleman with 19 percent, and Martinelli with 6 percent. Panama's elections are expected to be free and fair and should not warrant extensive monitoring or observation. All candidates want to maintain a close and cooperative relationship with the US and are strongly supportive of an FTA with the US; however, the agricultural lobby and Panama's rural populace weighs particularly heavy with Endara.

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Towards a Democratic Culture  
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14. (SBU) My September 29 speech to Panama's Chamber of Commerce, Industry and Agriculture, launching Embassy's Good Governance Initiative (GGI), resonated with Panamanians and generated front-page headlines. Venality, conflict of interest, nepotism, and lack of transparency are ingrained in Panama's political culture and institutions. Panama's "spoils system" allows politicians to use the entire state bureaucracy as a patronage base. The country's criminal libel laws, left over from military rule, impose enormous costs and risks on journalists and whistle-blowers. Legislative immunity is often abused, as elsewhere in the region. The Embassy currently supports good governance activities directed toward judicial reform, civic education, business ethics, and strengthening anti-corruption prosecutors' institutional capacity, and is reviewing implementation of President Bush's initiative to cancel visas to the United States of corrupt public officials.

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A Mixed Macroeconomic Record  
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15. (SBU) Since the turnover of Canal operations and US military bases in 1999, Panama has had a mixed record of economic success. The Canal is run more efficiently, safely and profitably than under USG administration. Canal-related industries, especially cargo transshipment through ports at both ends of the Canal, have boomed, as have visits by U.S. cruise ships, which will surpass 200 port calls in Panama this year. Panama's overall economy went flat when nearly 30,000 U.S. military personnel and their dependents left during the late 1990s, privatizations slowed, and the 2001 global recession took hold which perpetuated the country's estimated 13.4% unemployment. Also, Panama has failed to attract large investments into the former Canal Zone. Poverty, income disparity (2nd only to Brazil in the Hemisphere), an actuarially bankrupt social security system and a heavy sovereign debt load are arguably the biggest internal challenges facing Panama today. Since mid-2003, however, economic growth has picked up, primarily as a result of tax incentives given to a booming construction sector, low interest rates, and a global economic recovery. Panama's growth rate for 2003 came in at around 4 percent.

16. (U) Panama's \$12 billion economy is based primarily on a well-developed services sector that accounts for approximately 78 percent of GDP. Services include the Panama Canal, banking and financial services, legal services, container ports, the Colon Free Zone (the 2nd largest in the world), and flagship registry. Panama also maintains one of the most liberalized trade regimes in the hemisphere. Bilateral trade with Panama came to \$2.1 billion in 2003. U.S. exports were \$1.85 billion and imports were \$301 million. The stock of U.S. Foreign Direct Investment (FDI) in 2002 was \$20 billion, down 20 percent from 2001. U.S. FDI is primarily concentrated in the financial sector.

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International Trade and Investment  
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17. (SBU) Economic issues top Panama's agenda with the United States. First, for political and economic reasons, the Moscoso Administration is pleased the first negotiating round for the bilateral FTA will be held prior to the May 2 national elections. (Comment. While the GOP argues that the timing of the talks will send the right signal that this is a "state project" rather than a political one, the Moscoso Administration is hoping for some pre-electoral political advantage. End comment.) Panama is also satisfied with the current negotiating schedule as it provides for completion of an agreement prior to the November U.S. elections and the July 2005 expiration of TPA. The GoP views the FTA as a vehicle to lock in the status quo or better (CBI, GSP), improve market access in niche areas (e.g., banking, maritime, and sugar), and most importantly to attract investment. GoP Minister Jacome was not pleased with recent public remarks by Costa Rica's Trade Minister that they would welcome Panama into CAFTA. Jacome told ECON Chief that from Panama's perspective this was a bilateral, but he was not closing the door on any options.

18. (U) The GoP has long argued for Panama's re-designation from a "near foreign port" to a "distant foreign port" under the U.S. Passenger Vessels Services Act (PVSA), to capture a larger share of the cruise ship trade. The USG is studying the possibility of a re-designation. The GoP estimates that

up to U.S. \$50 million per year could be gained for Panama's growing tourism sector. Over the past year, we have seen a marked improvement in the GoP's willingness to make progress on a number of U.S. investment cases, to address bilateral trade issues, including agricultural concerns, and to enhance cooperation/coordination in regional and multilateral trade fora. The USG has asked Panama to continue its progress on resolving investment disputes and improving its investment climate through responsiveness to investor concerns, clear rules of the game, predictability, and transparency in decision-making. Agriculture protectionism is still vexing, however; US beef imports from the recent BSE scare have not resumed, and we fight recurring skirmishes on pork, poultry, potatoes, and other products. (Comment: In part due to upcoming elections. End Comment.)

9. (U) After several years of effort, Panama was elevated to "Category 1" for air safety oversight on April 14, 2004. This was the result of efforts by the Federal Aviation Administration and Embassy to focus the GoP on implementing needed changes to its aviation authority in order to ensure the safety of the traveling public. The designation allows Panamanian air carrier COPA to increase flights into the U.S. COPA (49 percent owned by Continental Airlines) may now exercise an option for Boeing aircraft, valued at more than \$354 million, to service new routes, thus directly benefitting these two key U.S. companies. Lastly, sometime next year the GoP is expected to move forward with a national referendum on expansion of the Canal through the construction of a third set of locks. If, given the green light, the project's value is estimated to be between USD 4-9 billion and would take around 10 years to complete. Substantial opportunities for U.S. service providers is expected.

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Maritime Security  
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10. (SBU) The 9/11 attacks called significant attention to the potential for terrorist exploitation of Panama's leading maritime position. Panama has the world's largest flag state registry with approximately 6300 vessels over 500 gross metric tons and approximately 300,000 seafarers. Additionally, approximately two-thirds of Canal traffic originates or terminates at U.S. ports, roughly 13% of U.S. seaborne trade. Nearly, 27 percent of foreign-flagged cargo ships arriving at U.S. ports are Panamanian. Moreover, approximately 125 U.S. military vessels, including nuclear-powered U.S. submarines ("high value transits"), visit Panamanian ports and/or transit the Canal each year. Port services have grown dramatically from about 200,000 containers per year in the early 1990s to almost two million by 2002, giving Panama Latin America's leading port complex. (Note: Although a large number of containers transit the Panama Canal, the number that actually are shipped and transhipped from Panama are substantially less -- around 90 thousand. End note.)

11. (SBU) Given these equities, the Embassy, through its Maritime Security Working Group and in coordination with Washington agencies, has undertaken a broad Maritime Security agenda with the GoP. We have seen a strong willingness on the part of the Moscoso Administration for Panama to meet its responsibilities as a major maritime player. Progress has been particularly good since President Moscoso's appointment in June 2003 of Panama's Public Security and National Defense Council ("the Consejo") Executive Secretary Ramiro Jarvis to coordinate maritime security matters. Key components of the agenda include: making Panama's seafarer document more secure, protecting U.S. forces, port security (including for cruise ships), container security, export controls, proliferation security, and strengthening GOP institutions. Progress by the GoP has been good on all of the fronts; however, we will have to keep the pressure on the GoP to follow-through, in particular, on meeting new IMO requirement regarding ship and port security.

12. (SBU) Panamanians have also become increasingly willing to accept military-to-military security training, equipment and other assistance to enhance their capabilities to protect the Canal and borders. Although the present terrorist threat to the Canal is considered low and Panamanian planning, layered defenses and security resources are generally well regarded, the Canal remains vulnerable. Continued U.S. training, equipment and other assistance are vital to preempt a major terrorist attack.

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Fighting International Crime  
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113. (SBU) Law enforcement cooperation with Panama is excellent. The Moscoso Administration set up a new, GOP-interagency counternarcotics vetted unit; expanded upon the basic shiprider agreement to facilitate maritime/air operations in pursuit of drug, arms and explosives smuggling (and may soon include WMD); expedited thirty-eight maritime drug prisoner transfers to USG custody (saving U.S. taxpayers U.S. \$1 million per event); and captured and transferred to U.S. custody seventeen fugitives from U.S. justice (most recently, on January 14, Colombian drug kingpin Arcangel de Jesus Henao Montoya, wanted in New York for smuggling five tons of cocaine). Panama is working much more closely with Colombian President Uribe's government against narco-terrorists. The GOP has also welcomed USG assistance -- DOD special operations forces (training National Police (PNP) border units) and AID community development (enhancing productive capacity and governmental presence in the Darien border province).

114. (SBU) The GOP revamped its legal and administrative structures to fight money laundering, becoming a model for other countries, such as Russia, that are trying to bring their regimes up to grade. Panama assisted the USG in the prosecution of money laundering cases and provided crucial information against former Nicaraguan President Arnoldo Aleman. However, at the 2004 Summit of the Americas in Monterrey, Mexico, several hemispheric neighbors chided Panama for recently granting "asylee" status to a former Ecuadorian cabinet minister, who is charged with embezzlement of government funds.

WATT